Public Service Commission

Operating Budget Hearing
House Appropriations Committee
Sub-Committee on Transportation & the Environment

Tuesday, March 2, 2004

Public Service Commission – Operating Budget Hearing
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The purpose of this Report is to provide information about the Public Service Commission's FY 2005 budget request and to respond to the issues raised by the Department of Legislative Services' Budget Policy Analyst.

Summary of Public Service Commission's FY 2004 Budget:

The Public Service Commission ("Commission" or "PSC") is currently a $12.7 million Agency consisting of 140 special fund employees, who oversee the operations of approximately 2,800 companies with $12.3 billion in assets. These companies provide critical services to all Marylanders in such diverse industries as natural gas distribution, electric distribution and transmission, water and sewerage, transportation and telecommunications. It is important to note that the number of authorized positions performing this vital state regulatory function continues to be less than in the early 1990's despite the increases in legislatively mandated programs. The Commission is a special funded agency, funded by assessments paid by public service companies. Increases or decreases in Commission expenditures affect utility assessments, **not** the taxpayer-supported General Fund.

The Policy Analyst's Issues for Response:

1. **Weatherization Component of Electric Universal Service Program.** PSC should comment on its role of overseeing the weatherization component of the EUSP program and how it intends to ensure effective program performance. PSC should also comment on how the weatherization program can be improved, the effectiveness of DHR's administration of weatherization program, and how administrative costs can be minimized.

PSC Response:
The Commission has taken an active role in overseeing the EUSP as indicated in its Report for Program Year 5 provided to the General Assembly in compliance with Public Service Companies Article, §7-512.1. In June 2003, the Commission observed that Office of Home Energy Program's ("OHEP") EUSP weatherization component description allowed for some forms of appliance replacement. This was inconsistent with the Commission's program mandates as provided by law and Commission Order. As a result the Commission directed that the weatherization program component be revised to the proper scope and specifications. OHEP amended its contract with the weatherization contractor and filed a compliance description with its October 31, 2003 FY 2003 Annual Report. A total amount of $3.5 million was authorized for weatherization. The basis of the stated $4.3 million modification amount is unclear. It may reflect the combination of two years worth of weatherization funds, including unspent funds from FY 2002. In an effort to increase program effectiveness and maximize program availability, OHEP is required to maintain a list of unserved weatherization applicants from prior years. Eligible applicants are given first priority on a going forward basis until served.

One reason for the poor performance of the weatherization program has been the difficulty of getting weatherization accomplished within the tenant-housing sector (particularly in urban areas, such as Baltimore City). Owners of tenant housing have traditionally been reluctant to make the mandatory 25% landlord contribution, and thus tenant occupied dwellings go without weatherization services.

The Commission has directed that the EUSP Work Group, which was reconstituted on February 5, 2004, to explore this issue, including approaches to quantifying "in-kind" landlord contributions as a way of meeting the contribution requirement.

The Commission closely monitors DHR/OHEP's reports on a regular basis, including conducting oversight hearings during the spring and fall of each year to ensure the greatest possible compliance with EUSP program objectives.

At the request of the Commission the DHR/OHEP will be issuing a request for proposals to evaluate the effectiveness of the ESUP, hopefully, sometime before the end of this fiscal year.

2. Electricity Deregulation and Possible Extension of Regulated Rates. PSC should comment on the status of electricity deregulation.

PSC Response:
With the end of price caps on rates in some form in each of the investor-owned utility service territories beginning in July of 2004, the Commission anticipates competition for electric consumers will increase. This projection is based on the belief that the major impediment to competition has been the capped rates of utilities. The Commission also anticipates that the SOS price offered by investor-owned utilities will increase to reflect a market price as required by the Public Utility Companies Article, §7-510, Annotated Code of Maryland.

3. Status of Moving Utilities Underground. PSC should comment on the status of moving utilities underground and the fiscal implications for Maryland ratepayers.

PSC Response:
The Commission monitored the Task Force to Study Moving Overhead Utility Lines Underground. It is the Commission's belief that no action by the Commission was recommended. As such, the status quo remains, which means if a political subdivision wants to underground utility lines it would be required to fund the project. Under-grounding of utility lines is expensive, and there is no clear benefit to reliability.

4. Inquiry into Storm Outages. PSC should comment on the status of its inquiry.

PSC Response:
The Commission's proceedings in this matter have concluded and the Commission is now in the deliberative process.

5. Funds Remaining from the Consumer Education Program Contract. The Department of Legislative Services recommends PSC that utilize the funds from its fiscal 2004 appropriation for any consumer education contracts or contract extensions and return to the State's general fund all of the unspent funds originally from the Governor's Dedicated Purpose Fund. Language could be added to the Budget Reconciliation Act ensuring funds are returned to the general fund in fiscal 2004. PSC should provide a current estimate of the amount of funds that would be returned to the State's general fund if the Consumer Education Program contract were not extended. PSC should also comment on the feasibility of providing consumer education services internally and its Consumer Education Program plans for current and future years.

PSC Response:
The Commission agrees that any unexpended funds derived from the general fund to cover the original Electric Choice Education Program as authorized by Section 5 of Chapters 3 and 4 of the 1999 Laws of Maryland should and will be returned to the general fund. In the absence of any legislative action, the unexpended funds would be returned in the FY 2004 closeout of the Commission's books. As of the end of February, the Commission estimates that there will be approximately $180,000 subject to reversion to the general fund.

6. Security, Enforcement, and Investigations Unit. PSC should provide an explanation of the status of the proposed unit, why a large portion of the funds for the proposed unit remain unencumbered, and what level of funding is appropriate for fiscal 2005.

PSC Response:
The Commission is re-evaluating its organizational structure to determine whether the establishment of a separate unit that would perform security, market monitoring and enforcement tasks is the most appropriate approach for accomplishing the objectives of this initiative.

Of the approximately $2.0 million originally contemplated for this effort, approximately $400,000 was salaries and wages for nine positions. To date, five positions have either been filled or are being actively recruited. The remaining positions are undergoing position responsibility assessment and other preparations for recruitment.

The remaining $1.6 million is in consulting services. In the Commission's presentation to both the House and Senate budget subcommittees, it indicated these funds would be used for a security consultant, a standard offer service ("SOS") consultant, consumer education, the Federal Communications Commission's Triennial Review implementation process, and attorney parity. The Commission has committed approximately $500,000 to date. Approximately $270,000 for attorney parity, $100,000 for SOS consultant and $130,000 to the implementation of the FCC's Triennial Review Order. The use of the remaining funds are under development and potentially include consumer education, rate review assistance, market monitoring program development, security review procedure development, and additional SOS assistance.

The FY 2005 request for $900,000 anticipates a need for consulting services to cover such things as a continuation of consumer education program, rate of return consulting services, continuation of SOS development services, triennial review of telecommunications follow-up services, and Homeland Security procedures development services.

The Policy Analyst's Budget Recommendations:

PSC General Comments

While the Commission appreciates the need for cost containment in these fiscally strapped times and supports the Governor's efforts in the proposed FY 2005 budget, further cost containment measures affecting the PSC by the General Assembly will significantly impact the PSC's efforts to accomplish its legislatively expanded mission. Moreover, as the Commission has pointed out on numerous occasions, any reduction in its budget results in a dollar-for-dollar reduction in the state's revenues. Funding for the Commission is solely derived by an assessment on the entities it regulates. The assessment is based on the authorized PSC budget. Therefore, any budget reduction is a dollar-for-dollar reduction in the assessment and thus, the state revenues it produces.

Public Service Commission

Operating Budget Hearing
Senate Budget and Taxation
Sub-Committee on Health & Human Services

Thursday, March 4, 2004

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